MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017 SESSION

BAC1614 – FUNDAMENTALS OF FINANCIAL ACCOUNTING

(All Section / Groups)

06 MARCH 2017
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTION TO STUDENT

1. This question paper consists of 9 pages excluding cover page with 4 Questions only.
2. Attempt ALL questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided

QUESTION 1

a) The framework used to record and summarize the economic activities of a business enterprise is referred to as the accounting equation.

Explain how are business transactions and financial statements related to the accounting equation?

(4 marks)

b) Explain why accrual basis financial statements provide more useful information than cash-basis statements.

(4 marks)

c) Ariff is an engineer commenced a business named Excellent Engineering Sdn Bhd on 1 January 2017. The business sources of income are from fees received for installation and commissioning of factory machinery, maintenance and repair of heavy machinery. Excellent Engineering Sdn Bhd completed the following transactions during January 2017:

Jan 1 Transferred cash from personal bank account amounted RM50,000 to the business account.
1 Paid one month rent in advance (deposits) on a furnished office, RM2,550.
1 Purchased equipment on credit from Heavy Machinery Suppliers, RM12,550.
4 Purchased supplies, RM550.
5 Received fees for services provided for maintenance and repair of heavy machine, RM1,250.
6 Contributed his own car to the business as additional capital, RM55,000.
12 Paid for the car maintenance expense, RM675.
14 Paid utilities expense, RM245.
22 Billed Amour Bhd for installation and commissioning machinery, RM4,550.
30 Paid first month cash dividend amounted to RM1,000
31 The cost of supplies on hand was RM155.
31 Paid salaries and wages, RM7,550.

Required

(i) Journalise the transactions for January 2017. (You may omit the explanation).

(8 marks)

(ii) Prepare a trial balance for Excellent Engineering Sdn Bhd as at 31 January, 2017.

(5 marks)

Continued...

d) A partial trial balance of Xpress Enterprise at March 31, 2017 shows the following.

	Debit	Credit
Equipment	37,500	
Accumulated depreciation-equipment		12,600
Supplies	4,200	
Prepaid insurance	5,400	
Salaries expense	21,000	
Interest expense	0	
Rent revenue		90,000
Unearned rent revenue		14,848
Notes payable		30,000

The account clerk has reviewed the above accounts and discovered the following.

i. Supplies on hand at March 31 totaled RM1,260.
ii. The equipment depreciates RM480 per month.
iii. One-quarter of the unearned rent revenue was earned during the quarter.
iv. Prepaid insurance totaling RM300 per month has expired.
v. Interest totaling RM750 is accrued on the notes payable for the quarter.

Required

Prepare the adjusting entries at March 31, assuming that adjusting entries are made quarterly.

(4 marks)
[Total 25 marks]

QUESTION 2

a) Explain three differences between perpetual inventory system and periodic inventory system.

(4 marks)

b) Explain the differences between a merchandising business and a service business.

(4 marks)

c) Desa Mewah Enterprise operates a business in Kajang, Selangor. The company distributes wooden chairs to the furniture stores and extends credits of 1/10, n/30 to all of its customers. Desa Mewah Enterprise completed the following merchandising transactions in the month of March 2017.

Continued...

Mar 2 Purchased merchandise inventory on account from Cengal Sdn Bhd RM12,500, terms 2/10, n/30.
4 Sold merchandise inventory to Mega Bhd on account RM10,000, FOB destination. The cost of merchandise sold was 20% of its selling price.
5 Paid RM500 freight on Mar 4 sale.
6 Returned merchandise purchased from Cengal Sdn Bhd on March 2 amounting to RM700.
10 Made full payment to Cengal Sdn Bhd.
12 Received collection in full from Mega Sdn Bhd billed on March 4.
14 Purchased merchandise inventory for cash RM7,500.
17 Purchased merchandise inventory from Jati Distributors worth RM11,000, FOB shipping point, terms 2/10, n/30. The purchase price includes freight cost of RM1,000
18 Received refund of cash from supplier on purchase made on March 14, RM900.
20 Sold merchandise for cash RM13,200. The cost of merchandise inventory sold was RM10,240.
27 Made refunds to cash customers for defective merchandise inventory of RM310. The cost of the merchandise returned was RM150.

Required

Journalise the above transactions using a perpetual inventory system.

(10 marks)

d) Zamrud Company uses the perpetual inventory system and had the following purchases and sales during March.

		Purchases		**Sales**	
		Units	Unit cost	Units	Selling price per unit
Mar 1	Beginning inventory	200	RM80		
3	Purchase	120	RM100		
4	Sales			140	RM160
10	Purchase	400	RM110		
16	Sales			160	RM180
19	Purchase	80	RM120		
25	Sales			240	RM180

Continued...

Required

Using the inventory and sales data above, calculate the value assigned to cost of goods sold and the ending inventory as at March 31 using average cost method.

(7 marks)

[Total 25 marks]

QUESTION 3

a) Safe Systems most recently reconciled its bank balance on April 30 and reported two cheques outstanding at that time, No. 1771 for RM781 and No. 1780 for RM1,325.90 The following information is available for its May 31, 2016, reconciliation.

From the May 31 Bank Statement

PREVIOUS BALANCE	TOTAL CHEQUES AND DEBITS	TOTAL DEPOSITS AND CREDIT	CURRENT BALANCE
18,290.70	12,898.90	16,416.80	21,808.60

CHEQUES AND DEBITS			DEPOSITS AND CREDITS		DAILY BALANCE	
Date	**No.**	**Amount**	**Date**	**Amount**	**Date**	**Amount**
May 1	1771	781.00	May 4	2,438.00	Apr 30	18,290.70
2	1783	195.30	14	2,898.00	May 1	17,509.70
4	1782	1,285.50	22	1,801.80	2	17,314.40
11	1784	1,449.60	25	7,200.00 CM	4	18,466.90
18		431.80 NSF	26	2,079.00	11	17,017.30
25	1787	8,032.50			14	19,915.30
26	1785	157.20			18	19,483.50
29	1788	554.00			22	21,285.30
31		12.00 SC			25	20,452.80
					26	22,374.60
					29	21,820.60
					31	21,808.60

Continued...

For Safe Systems' Accounting Records

Cash Receipts Deposited			
Date			Cash Debit
May	4		2,438.00
	14		2,898.00
	22		1,801.80
	26		2,079.00
	31		2,526.30
			11,743.10

Cheque No		Cash Credit
1782		1,285.50
1783		195.30
1784		1,449.60
1785		157.20
1786		353.10
1787		8,032.50
1788		544.00
1789		639.50
		12,656.70

Cash						Acct. No. 101
Date		Explanation	RF	Debit	Credit	Balance
Apr	30	Balance				16,183.80
May	31	Total receipts	R7	11,743.10		27,926.90
	31	Total disbursements	D8		12,656.70	15,270.20

Additional Information

- Cheque no: 1788 is correctly drawn for RM554 to pay May utilities; however, the record keeper misread the amount and entered it in the accounting records with a debit to Utilities Expense and a Credit to Cash for RM544. The bank paid and deducted the correct amount.
- The NSF cheque shown in the statement was originally received from a customer, S Box Sdn Bhd in payment of their account. The company has not yet recorded its return.
- The credit memorandum is from a RM7,300 note that the bank collected for the company. The bank deducted a RM100 collection fee and deposited the remainder in the company's account. The collection and fee have not yet been recorded.

Required

(i) Prepare the May 31, 2016, bank reconciliation for Safe Systems.

(6 marks)

(ii) Prepare the journal entries to adjust the Cash book balance to the reconciled balance.

(4 marks)

(iii) The bank statement reveals that some of the pre-numbered cheques in the sequence are missing. Describe three possible situations to explain this.

(3 marks)

Continued...

b) Rapid Melaka Company began operations on January 1, 2015, and completed several transactions during 2015 and 2016 that involved sales on credit, account receivable collections, and bad debts. These transactions are summarized as follows:

2015

1. Sold RM673,490 of merchandise (that had cost RM500,000) on credit, terms n/30.
2. Received RM437,250 cash in payment of account receivable
3. Wrote-off RM8,330 of uncollectible accounts receivable.
4. In adjusting the accounts on December 31, the company estimated that 1% of accounts receivable will be uncollectible.

2016

5. Sold RM930,100 of merchandise (that had cost RM650,000) on credit, terms n/30.
6. Received RM890,220 cash in payment of account receivable
7. Wrote-off RM10,090 of uncollectible accounts receivable.
8. In adjusting the accounts on December 31, the company estimated that 1% of accounts receivable will be uncollectible.

Required

Prepare its year-end adjustment entry for 2015 and 2016 to record bad debts expenses. Show all workings.

(6 marks)

c) On February 19, of the current year, Mineral Engineering Co. pays RM4,450,000 for land estimated to contain 5 million tons of recoverable tin ore. It installs machinery costing RM200,000 that has a 16-year life and no residual value and is capable of mining the tin ore deposit in 12 years. The machinery is paid for on March 21, eleven days before mining operations begin. The company removes and sell 352,000 tons of tin ore during its first nine months of operations ending on December 31. Depreciation of the machinery is in proportion to the mine's depletion as the machinery will be abandoned after the tin ore is mine.

Required

(i) Prepare journal entries to record the first nine months' depletion assuming the land has net residual value of zero after the ore is mined, and the first nine months of depreciation on the machinery. Show all workings.

(3 marks)

Continued...

(ii) Describe both the similarities and differences in amortization, depletion and depreciation.

(3 marks)

[Total 25 marks]

QUESTION 4

a) Biotech Agro Company (BAC) patented and successfully test-marketed a new product. To expand its ability to produce and market the new product, BAC needs to raise RM800,000 of financing. On January 1, 2011, the company obtained the money in two ways:

1) BAC signed a RM400,000, 10% installment note to be repaid with five equal annual installments of RM105,519 to be made on December 31 of 2011 through 2015.

2) BAC issued five-year bonds with a par value of RM400,000. The bonds have a 12% annual contract rate and pay interest on June 30 and December 31. The bonds' annual market rate is 10% as of January 1, 2011. BAC uses the effective-interest method to amortize bond premium or discount.

Required

(i) For the installment note (1), prepare the installment payment schedule for the first three (3) years and record the journal entry for the first payment.

(3 marks)

(ii) For the bonds, compute their issue price using the present value factor of a single amount (PV of 1) and of an annuity (PV of annuity) table and prepare journal entry to record the issuance on January 1, 2011. (Present value factors table are attached at the end of the page).

(3 marks)

(iii) For the bonds, prepare the Bonds amortization schedule for 3 interest periods and journal entry to record the first interest payment. Round-up to nearest dollar.

(3 marks)

(iv) Prepare a journal entry to record the retiring of the bonds at a RM416,000 call price on January 1, 2013.

(3 marks)

Continued...

b) The following information are the key 2010 comparative figures (in currency millions) for both Nestle and Kraft Foods.

(In currency millions)	Nestle (USD)	Kraft Foods (USD)
Cash	8,057	2,481
Accounts Receivable (net)	12,083	6,539
Inventories	7,925	5,310
Retained Earnings	88,422	16,619
Cost of goods sold	45,849	31,305
Sales	109,722	49,207
Total assets	111,641	95,289

Required

(i) Compute common-size percentages for each of the companies using the data provided. Round-up to one decimal place.

(7 marks)

(ii) Which company retains a higher portion of the cumulative net income of the company?

(2 marks)

(iii) Which company has a higher gross margin ratio on sales?

(2 marks)

(iv) Which company holds a higher percentage of its total assets as inventory

(2 marks)

[Total 25 marks]

Continued...

Present Value of 1

$$p = 1/(1+i)^n$$

TABLE B.1

Present Value of 1

Periods	Rate											
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	12%	15%
1	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.8929	0.8696
2	0.9803	0.9612	0.9426	0.9246	0.9070	0.8900	0.8734	0.8573	0.8417	0.8264	0.7972	0.7561
3	0.9706	0.9423	0.9151	0.8890	0.8638	0.8396	0.8163	0.7938	0.7722	0.7513	0.7118	0.6575
4	0.9610	0.9238	0.8885	0.8548	0.8227	0.7921	0.7629	0.7350	0.7084	0.6830	0.6355	0.5718
5	0.9515	0.9057	0.8626	0.8219	0.7835	0.7473	0.7130	0.6806	0.6499	0.6209	0.5674	0.4972
6	0.9420	0.8880	0.8375	0.7903	0.7462	0.7050	0.6663	0.6302	0.5963	0.5645	0.5066	0.4323
7	0.9327	0.8706	0.8131	0.7599	0.7107	0.6651	0.6227	0.5835	0.5470	0.5132	0.4523	0.3759
8	0.9235	0.8535	0.7894	0.7307	0.6768	0.6274	0.5820	0.5403	0.5019	0.4665	0.4039	0.3269
9	0.9143	0.8368	0.7664	0.7026	0.6446	0.5919	0.5439	0.5002	0.4604	0.4241	0.3606	0.2843
10	0.9053	0.8203	0.7441	0.6756	0.6139	0.5584	0.5083	0.4632	0.4224	0.3855	0.3220	0.2472
11	0.8963	0.8043	0.7224	0.6496	0.5847	0.5268	0.4751	0.4289	0.3875	0.3505	0.2875	0.2149
12	0.8874	0.7885	0.7014	0.6246	0.5568	0.4970	0.4440	0.3971	0.3555	0.3186	0.2567	0.1869
13	0.8787	0.7730	0.6810	0.6006	0.5303	0.4688	0.4150	0.3677	0.3262	0.2897	0.2292	0.1625
14	0.8700	0.7579	0.6611	0.5775	0.5051	0.4423	0.3878	0.3405	0.2992	0.2633	0.2046	0.1413
15	0.8613	0.7430	0.6419	0.5553	0.4810	0.4173	0.3624	0.3152	0.2745	0.2394	0.1827	0.1229
16	0.8528	0.7284	0.6232	0.5339	0.4581	0.3936	0.3387	0.2919	0.2519	0.2176	0.1631	0.1069
17	0.8444	0.7142	0.6050	0.5134	0.4363	0.3714	0.3166	0.2703	0.2311	0.1978	0.1456	0.0929
18	0.8360	0.7002	0.5874	0.4936	0.4155	0.3503	0.2959	0.2502	0.2120	0.1799	0.1300	0.0808
19	0.8277	0.6864	0.5703	0.4746	0.3957	0.3305	0.2765	0.2317	0.1945	0.1635	0.1161	0.0703
20	0.8195	0.6730	0.5537	0.4564	0.3769	0.3118	0.2584	0.2145	0.1784	0.1486	0.1037	0.0611
25	0.7798	0.6095	0.4776	0.3751	0.2953	0.2330	0.1842	0.1460	0.1160	0.0923	0.0588	0.0304
30	0.7419	0.5521	0.4120	0.3083	0.2314	0.1741	0.1314	0.0994	0.0754	0.0573	0.0334	0.0151
35	0.7059	0.5000	0.3554	0.2534	0.1813	0.1301	0.0937	0.0676	0.0490	0.0356	0.0189	0.0075
40	0.6717	0.4529	0.3066	0.2083	0.1420	0.0972	0.0668	0.0460	0.0318	0.0221	0.0107	0.0037

Present Value of an Annuity of 1

TABLE B.3

Present Value of an Annuity of 1

$$p = \left[1 - \frac{1}{(1+i)^n}\right]/i$$

Periods	Rate											
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	12%	15%
1	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.8929	0.8696
2	1.9704	1.9416	1.9135	1.8861	1.8594	1.8334	1.8080	1.7833	1.7591	1.7355	1.6901	1.6257
3	2.9410	2.8839	2.8286	2.7751	2.7232	2.6730	2.6243	2.5771	2.5313	2.4869	2.4018	2.2832
4	3.9020	3.8077	3.7171	3.6299	3.5460	3.4651	3.3872	3.3121	3.2397	3.1699	3.0373	2.8550
5	4.8534	4.7135	4.5797	4.4518	4.3295	4.2124	4.1002	3.9927	3.8897	3.7908	3.6048	3.3522
6	5.7955	5.6014	5.4172	5.2421	5.0757	4.9173	4.7665	4.6229	4.4859	4.3553	4.1114	3.7845
7	6.7282	6.4720	6.2303	6.0021	5.7864	5.5824	5.3893	5.2064	5.0330	4.8684	4.5638	4.1604
8	7.6517	7.3255	7.0197	6.7327	6.4632	6.2098	5.9713	5.7466	5.5348	5.3349	4.9676	4.4873
9	8.5660	8.1622	7.7861	7.4353	7.1078	6.8017	6.5152	6.2469	5.9952	5.7590	5.3282	4.7716
10	9.4713	8.9826	8.5302	8.1109	7.7217	7.3601	7.0236	6.7101	6.4177	6.1446	5.6502	5.0188
11	10.3676	9.7868	9.2526	8.7605	8.3064	7.8869	7.4987	7.1390	6.8052	6.4951	5.9377	5.2337
12	11.2551	10.5753	9.9540	9.3851	8.8633	8.3838	7.9427	7.5361	7.1607	6.8137	6.1944	5.4206
13	12.1337	11.3484	10.6350	9.9856	9.3936	8.8527	8.3577	7.9038	7.4869	7.1034	6.4235	5.5831
14	13.0037	12.1062	11.2961	10.5631	9.8986	9.2950	8.7455	8.2442	7.7862	7.3667	6.6282	5.7245
15	13.8651	12.8493	11.9379	11.1184	10.3797	9.7122	9.1079	8.5595	8.0607	7.6061	6.8109	5.8474
16	14.7179	13.5777	12.5611	11.6523	10.8378	10.1059	9.4466	8.8514	8.3126	7.8237	6.9740	5.9542
17	15.5623	14.2919	13.1661	12.1657	11.2741	10.4773	9.7632	9.1216	8.5436	8.0216	7.1196	6.0472
18	16.3983	14.9920	13.7535	12.6593	11.6896	10.8276	10.0591	9.3719	8.7556	8.2014	7.2497	6.1280
19	17.2260	15.6785	14.3238	13.1339	12.0853	11.1581	10.3356	9.6036	8.9501	8.3649	7.3658	6.1982
20	18.0456	16.3514	14.8775	13.5903	12.4622	11.4699	10.5940	9.8181	9.1285	8.5136	7.4694	6.2593
25	22.0232	19.5235	17.4131	15.6221	14.0939	12.7834	11.6536	10.6748	9.8226	9.0770	7.8431	6.4641
30	25.8077	22.3965	19.6004	17.2920	15.3725	13.7648	12.4090	11.2578	10.2737	9.4269	8.0552	6.5660
35	29.4086	24.9986	21.4872	18.6646	16.3742	14.4982	12.9477	11.6546	10.5668	9.6442	8.1755	6.6166
40	32.8347	27.3555	23.1148	19.7928	17.1591	15.0463	13.3317	11.9246	10.7574	9.7791	8.2438	6.6418

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